

GENERAL RETIREMENT SYSTEM  
and  
POLICE and FIRE RETIREMENT SYSTEM  
BOARD OF TRUSTEES  
CITY OF GRAND RAPIDS  
MICHIGAN

MINUTES  
JOINT MEETING  
FEBRUARY 15, 2023 – 8:21 a.m.  
233 E. Fulton, Suite 216

The meeting was called to order by Chairman Hawkins. Other members present: Mr. David Tryc, Mr. Philip Balkema, Mr. William Butts, Mr. Phillip Mitchell, Ms. Donijo DeJonge, Mr. Justin Ewald, and Mr. William Fabiano. Absent: Mr. Martin Timkovich and Mr. Nathaniel Moody.

Also present: Ms. Peggy Korzen, Executive Director of the Retirement Systems, Mr. Thomas Michaud, Legal Advisor to the Boards, Ms. Mariko Boswell and Mr. Eric Bachman of PIMCO, Mr. Kevin Gore and Mr. James So of Western Asset Management, Mr. David Lindberg, Mr. Stephen DiGirolamo and Mr. Jake McClelland of Wilshire, and Mr. Jim Anderson and Mr. Jeffrey Tebeau of Gabriel, Roeder, Smith and Company.

Ms. DeJonge made the motion to excuse the absences of Mr. Timkovich and Mr. Moody. The motion was seconded by Mr. Balkema and carried.

There were no public comments regarding agenda items.

Ms. Korzen commented that there was a sentence in the January 18, 2023 Joint Board meeting minutes under the Northern Trust section regarding assets under custody that was revised. Mr. Butts made the motion to approve the minutes of the Joint Meeting of January 18, 2023. The motion was seconded by Mr. Balkema and carried.

Ms. Mariko Boswell, Executive Vice President, CFA and CAIA, and Mr. Eric Bachman, CFA, Senior Vice President, and Account Manager, of Pacific Investment Management Company (PIMCO), presented their firm's annual report to Trustees. Mr. Bachman reviewed PIMCO's StocksPLUS strategy and noted that it is designed to be uncorrelated to equities, highly liquid, high quality, and flexible. He stated that StocksPLUS is a time-tested approach that seeks meaningful long-term excess returns while providing a diversifying source of excess returns. PIMCO has \$1.74 trillion in assets under management, 967 investment professionals, 3,439 total employees, and 50+ countries in which their clients are based. Mr. Bachman stated that PIMCO's StocksPLUS strategies have nearly \$27 billion in assets under management. He reviewed PIMCO's organization and team. Ms. Boswell commented that in the fourth quarter of 2022 global equity markets rallied on hopes for peaking inflation and a deceleration in the pace of rate hikes. Developed market equities rose 9.8% in the fourth quarter of 2022, driven by forecasts that central banks may slow the pace of interest rate hikes in 2023. U.S. equities rose 7.6% over the fourth quarter but fell 18.1% in 2022. European equities rose 9.5% in the fourth quarter to pare annual losses to 9.5% in 2022. Chinese equities rose 2.3% over the fourth quarter as investor sentiment improved in response to loosening COVID restrictions and hopes of an economic rebound. Their gains were muted though by surging infection rates following the rapid removal of restrictions; Chinese equities finished 2022 12.8% lower. Ms. Boswell noted that the StocksPLUS bond alpha portfolios were not immune from the sharp repricing of interest rate and credit risk in 2022. Their relative outperformance in 2022 was due to positioning that helped mitigate performance of the bond alpha portfolio. She stated that the StocksPLUS Enhanced Cash bond alpha strategy has underperformed its benchmark YTD as interest rate strategies and

spread sector strategies detracted from performance. The portfolio is however conservatively positioned with a focus on high quality assets and liquid sources of return. She stated that the bond alpha portfolio offers attractive forward-looking return potential and PIMCO retains high conviction positions in securitized debt. Equity index financing costs are lower compared to previous years and drawdowns in alpha have often been followed by a strong rebound in alpha. She commented on PIMCO's economic outlook by stating that it is their belief that inflation is likely to moderate, central banks are close to holding at restrictive rates, and there will be a shallow recession, but not without pain. They expect volatility due to central bank policy to decline, but asset market volatility to remain elevated. The following returns were reported for the period ending December 31, 2022:

	<u>10 yrs.</u>	<u>5 yrs.</u>	<u>3 yrs.</u>	<u>1 yr.</u>	<u>6 mo.</u>	<u>3 mo.</u>	<u>Since 09/30/87</u>	<u>Acct. Inception*</u>
StocksPLUS L.P.	12.4%	8.8%	6.7%	-20.7%	1.4%	7.4%	10.1%	6.6%
S&P 500	12.6%	9.4%	7.7%	-18.1%	2.3%	7.6%	9.6%	6.3%

\*Inception date: 09/01/00

The report was received and filed by Chairman Hawkins.

Mr. Kevin Gore, Client Service Executive, and Mr. James So, Product Specialist and CFA, of Western Asset Management (WAM) presented their firm's annual report to Trustees. Mr. Gore provided Trustees with an update of WAM and noted that as of December 31, 2022, WAM has 136 investment professionals on five continents and seven offices, with \$394.9 billion in global assets under management. Mr. Gore provided a business update and reviewed WAM's recent notable communications. He reviewed the firm's investment management team, investment philosophy and process. He stated that markets often misprice securities and WAM can systematically identify these mis-pricings. WAM's portfolios emphasize their highest convictions as they seek diversified sources of returns. He noted that WAM employs a long-term, fundamental value discipline and multiple diversified strategies; he also reviewed their risk management approach. Mr. So noted that WAM's investment strategy seeks to maximize return via a well-diversified, long-term value-based core fixed income portfolio that includes limited opportunistic exposure to the "plus" sectors (high yield and non-U.S. and emerging market debt). WAM employs a fundamental value-based approach that combines both top-down macro decisions with bottom-up issuer selection. Mr. So commented that in 2022 inflation surprised higher and the central banks tightened. He provided an attribution analysis, sector exposure, portfolio positioning, and credit sector exposure of their Core Plus product v. Bloomberg U.S. Aggregate USD Unhedged Index. Mr. Gore reviewed WAM's WISER risk report. He commented that inflation should ease substantially in 2023 and reviewed WAM's outlook for 2023 on Federal Reserve Policy and Fixed Income. They expect the Fed to pause in Q1 of 2023, U.S. growth will slow but will avoid recession, global inflation will continue to recede, and emerging markets will shine. The Fed policy will be to focus on real interest rates. He stated that the property market is turning, while softer sales and improving supply chains contribute to lower manufacturing inflation. Mr. So noted that job openings are still elevated but there is a potential for additional declines without large scale layoffs. He stated that inflation has been a challenge for households, but the yield curve indicates slower growth and inflation. Europe's growth has held in well, but demand is weakening and support is waning. He noted that China has pulled a pro-growth U-turn in policy due to COVID, property deleveraging, and businesses reopening. Mr. Gore stated that attractive returns have traditionally followed a peak in Fed Funds. Valuations have improved as there have been significant increases in both Treasury yields and credit spreads. He stated that with respect to high yield credit they have experienced the highest credit quality in decades with low refinancing risk. Fundamentals and valuations for agency mortgage-backed securities have improved. He noted that with respect to emerging markets, the tightening cycle is nearing the end as the U.S. dollar and commodities are key drivers. Mr. Gore reviewed the

attribution statistics, sector and credit sector exposures and portfolio positioning and provided the following return statistics for both portfolios as of December 31, 2022:

	<u>1 Yr.</u>	<u>3 Yrs.</u>	<u>5 Yrs.</u>	<u>10 Yrs.</u>	<u>Since Inception*</u>
General Retirement System	-17.3%	-3.3%	0.2%	2.1%	4.3%
Police & Fire Retirement System	-17.3%	-3.3%	0.2%	2.1%	4.2%
Bloomberg US Agg Unhedged Index	-13.0%	-2.7%	0.0%	1.1%	3.1%

\*April 30, 2004

The report was received and filed by Chairman Hawkins.

Mr. David Lindberg, Mr. Stephen DiGirolamo and Mr. Jake McClelland presented the quarterly performance report to Trustees. Mr. DiGirolamo commented the U.S. stock market was up 7.1% for the 4<sup>th</sup> quarter but was down 19.0% for all of 2022. The best performing sectors were Energy (+19.9%), Industrials (+16.6%) and Materials (+14.6%). Small cap stocks outperformed large cap stocks by 86 basis points. Growth stocks underperformed value for the quarter and also trailed meaningfully for the year. The FOMC raised rates 4.25%, with increases becoming more dramatic in May. This marked the largest 12-month increase since 1981. Fixed income suffered, but so did equities. Europe faced similar headwinds as the United States in 2022 – surging inflation and aggressive central bank tightening – but also had to more directly contend with the ongoing war in Ukraine. The labor market remains tight in the Eurozone and many businesses report that a labor shortage is limiting production. The U.S. Treasury yield curve was up in the short end (below 3 years) by 50-135 basis points but largely unchanged across the remainder of the curve. The 10-year Treasury yield ended the quarter at 3.88%, up just 5 basis points from September. The Fed increased the overnight rate by 0.75% in November and 0.50% in December, targeting a range of 4.25% to 4.50%. Their current intent is for another 75 basis points in increases before the end of 2023. Mr. DiGirolamo also provided information on Wilshire’s return and risk assumptions and their forecast over time as well as a summary economic review of all the major asset classes and a coronavirus timeline. Following a review of the capital markets, the Quarterly Funds Evaluation of the investment managers of the General and Police & Fire Retirement Systems was conducted.

**SUMMARY OF RETURNS  
PERIODS ENDED 12/31/22**

<u>Plan</u>	<u>QTR.</u>	<u>1 YEAR</u>	<u>3 YEARS</u>	<u>5 YEARS</u>	<u>10 YEARS</u>
<b>General Retirement System</b>	<b>5.60</b>	<b>-11.62</b>	<b>4.86</b>	<b>5.16</b>	<b>6.80</b>
<b>Policy Index</b>	<b>6.00</b>	<b>-10.93</b>	<b>3.84</b>	<b>4.36</b>	<b>5.73</b>
<b>Police &amp; Fire Retirement System</b>	<b>5.70</b>	<b>-11.79</b>	<b>4.79</b>	<b>5.09</b>	<b>6.78</b>
<b>Policy Index</b>	<b>6.00</b>	<b>-10.93</b>	<b>3.84</b>	<b>4.36</b>	<b>5.73</b>

**General Retirement System**

Asset Commitments as of 12/31/22:

Domestic Equity	16.7%
Non-U.S. Equity	15.8%
Fixed Income	23.8%
Global Low Volatility	10.4%
Real Estate	4.6%
Private Equity	8.2%
Commodities	5.2%

Asset Allocation to Managers:

NTAM	11.0%
PIMCO	3.4%
Wellington Management Company	2.3%
Neuberger Berman	7.9%
Harding Loevner	7.9%
BlackRock	10.4%
CenterSquare	4.6%

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Midstream Energy	4.8%	Wellington Commodities	5.2%
TIPS	4.9%	Brown Brothers Harriman	4.9%
Private Credit	5.0%	Harvest Fund Advisors	4.8%
Cash Equivalents	0.6%	Adams Street Partners	7.1%
		Aberdeen Asset Management	1.1%
		Grosvenor Capital	3.8%
		50 South Capital	1.2%
		Baird Advisors	12.2%
		Western Asset Management	11.6%
		Cash Account	0.6%

### **Police and Fire Retirement System**

<u>Asset Commitments as of 12/31/22:</u>		<u>Asset Allocation to Managers:</u>	
Domestic Equity	17.0%	NTAM	11.3%
Non-U.S. Equity	16.2%	PIMCO	3.3%
Fixed Income	23.8%	Wellington Management Company	2.4%
Global Low Volatility	10.0%	Neuberger Berman	8.2%
Real Estate	4.7%	Harding Loevner	8.0%
Private Equity	7.9%	BlackRock	10.0%
Commodities	5.4%	CenterSquare	4.7%
Midstream Energy	5.3%	Wellington Commodities	5.4%
TIPS	4.6%	Brown Brothers Harriman	4.6%
Private Credit	4.6%	Harvest Fund Advisors	5.3%
Cash Equivalents	0.6%	Adams Street Partners	6.9%
		Aberdeen Asset Management	1.0%
		Grosvenor Capital	3.5%
		50 South Capital	1.1%
		Baird Advisors	12.2%
		Western Asset Management	11.6%
		Cash Account	0.6%

Ms. Korzen commented that a representative from Adams Street Partners (ASP) recently contacted her regarding their 2023 Global Fund opportunity. She noted that the commitment time may be passed before ASP makes their next annual presentation to Trustees and asked if it was prudent to consider investing in this portfolio. Mr. DiGirolamo stated that Wilshire will review the pacing model for the private equity exposure and report back to Trustees at a future Board meeting to discuss this potential opportunity. The reports were received and filed by Chairman Hawkins.

Mr. Jim Anderson and Mr. Jeffrey Tebeau of Gabriel, Roeder, Smith and Company (GRS) next presented Trustees with a report on investment return and inflation assumptions. Mr. Anderson commented on assumed rate of return trends and stated that historically, GRS prepares full experience studies every five years and in recent years, GRS has provided both Boards with annual investment return updates. Return expectations fell over the last several years, but now the trend is reversing. Assumed rates of return are being reduced across the country; the median rate of return is 7.00% and the lowest rate is 5.25%. Mr. Tebeau reviewed Wilshire's return expectations for 2023 and provided forward-looking arithmetic and geometric returns for the Retirement Systems. He compared Wilshire's return expectations v. GRS' Capital Market Assumptions Modeler over 10 years and 20-30 years. He stated that the current assumption of 6.75% in each System is now lower than Wilshire's 10-year forecast. Capital market assumptions have seen significant increases since the release of the 2022 GRS Capital Market Assumptions Modeler. Mr. Tebeau commented that there is no universal method to setting this assumption, but it is generally based on future forecasts of investment experts (not historical averages). In addition, there is no universal agreement on a time horizon for this assumption, but it is generally between 10 and 20 years. Over half of the liability is

attributable to benefit payments being made in the next 10 years. Wilshire's 10-year expectation of 7.09% implies years 11-30 would require return of over 7.00% to achieve 6.75% long-term. He noted that survey data is not an exact science, is based on an average of averages, and does not take into account client specific strategies or knowledge. Due to the potential for mapping error, more weight should be given to the Wilshire forecasts. Mr. Tebeau commented that the strong investment returns in 2021 were given back in 2022 and in light of poor recent market performance and current economic conditions, most investment experts have increased their forecasts for the next 10-20 years. Changing the actuarial assumed rate of return should not impact the asset allocation strategy or actual investment return to the plan. He stated that the current 6.75% return assumption for each plan now has a higher probability of being achieved in the short- and long-term. The maturity of the Systems (especially the General Retirement System) means significant near-term cash outflows, which warrant consideration when selecting a return assumption. A 6.75% return assumption remains reasonable and GRS plans to continue to revisit this issue annually. Mr. Mitchell asked if GRS has any ballpark idea when the investment return assumption for the General Retirement System will diverge from the Police & Fire Retirement System; Mr. Anderson stated that they will continue to monitor the status of the General Retirement System and look for such signs as significant cash draws, but he noted that it will more than likely be at least 10 years before the divergence will occur.

Board approval was requested for attendance at the following conferences: the MAPERS One Day Seminar to be held March 3 by Ms. Peggy Korzen, the 2023 Annual NCPERS Conference to be held May 21 – 24 by Mr. Mitchell and the 2023 Spring MAPERS Conference to be held May 21 – 23 by Mr. Tryc, Mr. Ewald and Ms. Korzen. Chairman Hawkins stated that they will revisit this issue at the March 2023 Joint Board meeting to firm up any additional attendees. Mr. Balkema made the motion on behalf of the Police & Fire Retirement System to approve attendance of the aforementioned conferences by Trustees and staff per the Trustee Training, Educational Development and Due Diligence policy. The motion was seconded by Mr. Ewald and carried. Mr. Tryc made the motion on behalf of the General Retirement System to approve attendance of the aforementioned conferences by Trustees and staff per the Trustee Training, Educational Development and Due Diligence policy. The motion was seconded by Ms. DeJonge and carried.

There were no public comments on items not on the agenda.

The meeting adjourned at 10:03 a.m.

The next Joint Meeting of the General and Police & Fire Retirement System Boards will be held Wednesday, March 15, 2023, at 8:05 a.m., 233 East Fulton, Grand Rapids, Michigan.

Peggy Korzen  
Executive Director  
General and Police & Fire Retirement Systems